AR24

TOROMONT
INDUSTRIES LTD.

ANNUAL REPORT
1977

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TOROMONT INDUSTRIES LTD.
Subsidiary Companies

AR24

Industrial Refrigeration
CIMCO Limited
Allen Tank Limited
Allen Tank (London) Limited
Lewis Refrigeration Co.

Engineered Products
Canada Forgings,
a Division of Toromont Industries Ltd.
El-Met-Parts
Division of Toromont Industries Ltd.

Building Products
F. B. McFarren, Limited

Head Office
65 Villiers Street
Toronto, Ontario
M5A 3S1

Auditors
Touche Ross & Co.
Chartered Accountants

Bankers
The Mercantile Bank of Canada, Toronto
The Toronto-Dominion Bank, Toronto

Common Shares
Listed on
The Toronto Stock Exchange
Montreal Stock Exchange

General Counsel
Blake, Cassels & Graydon, Toronto
In the United States:
Miller, Anderson, Nash, Yerke & Wiener,
Portland, Oregon

Transfer Agent and Registrar
Crown Trust Co.
Toronto and Montreal

TOROMONT
INDUSTRIES LTD.

INTERIM REPORT TO SHAREHOLDERS
SIX MONTHS ENDED JUNE 30, 1977

To The Shareholders

For the first six months of 1977, our sales were $27,635,000 as compared with $23,842,000 for the prior year. Net earnings from continuing operations were $497,000 or 16.2¢ per share vs $388,000 or 8.2¢ per share last year.

On June 16, Toromont sold all of the stock of its subsidiary, Viking Pump Company of Canada, Limited. Viking was a small operation which had not been contributing significantly to our earnings and the sale was in line with our continuing plans to concentrate our resources on the development of our larger operating units. The loss on the sale of this subsidiary was $221,000. Net earnings after allowing for this loss and also for the profits on discontinued operations were $310,000 or 10.1¢ per share as compared with net earnings of $401,000 or 8.4¢ per share in the comparable period last year. Per share results were benefited considerably by the reduction in common shares outstanding as a result of the purchase and cancellation of 1,700,000 common shares last year.

The economic outlook in Canada continues to hold major uncertainties. Inflation, despite the efforts of the AIB, continues at an historically high level. Capital expenditures are still lagging and this has impacted unfavourably our Canadian operations which are closely related to the capital goods cycle. Nevertheless, on an overall basis, Toromont's earnings from continuing operations for 1977 should show significant improvement over last year.

We remain optimistic for the longer term. In part, because of the very large capital expenditures that we have made in recent years, we expect to show substantial earnings gains when economic conditions in Canada improve.

S. J. Sinclair
Chairman of the Board

R. A. Scoon
President

August 22, 1977

TOROMONT INDUSTRIES LTD. and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

for the Six Months ended June 30, 1977
(with comparative figures for 1976)

UNAUDITED	$000's 1977	1976
Sales:		
Industrial refrigeration	$16,107	$12,626
Engineered products	10,856	10,593
Building products	672	623
	$27,635	$23,842
Earnings before undernoted items	$ 895	$ 1,123
Provision for income taxes	397	734
Provision for minority interest in earnings of subsidiaries	1	1
Net earnings from continuing operations	497	388
Loss on sale of subsidiary	(221)	—
Net earnings from discontinued operations (note 1)	34	13
Net earnings for the period	310	401
Retained earnings beginning of period	4,517	5,930
Dividends declared—preferred	—	2
—common	153	238
Retained earnings end of period	$ 4,674	$ 6,091
Earnings per share (note 2)		
From continuing operations	16.2¢	8.2¢
From discontinued operations		
Net earnings	1.1	.2
Loss on sale of subsidiary	(7.2)	—
	10.1¢	8.4¢

Notes:

1. The company sold its subsidiary, Viking Pump Company of Canada, Limited in 1977. The financial statements give effect to this transaction and exclude the operating results of this subsidiary from sales and from earnings from continuing operations. The 1976 figures have been restated for comparative purposes.
2. Based on 3,061,000 shares outstanding in 1977 and 4,760,000 shares in 1976.

TOROMONT INDUSTRIES LTD. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Six Months ended June 30, 1977
(with comparative figures for 1976)

UNAUDITED	$000's 1977	1976
Source of funds		
From operations:		
Net earnings for the period	$ 310	$ 401
Adjustments for charges not involving funds:		
Depreciation and amortization	388	332
Deferred income taxes	27	70
	725	803
Proceeds from sale of subsidiary:		
Net proceeds from sale	1,000	—
Less: Working capital reduction	492	—
	508	—
Sundry items	(98)	109
	1,135	912
Application of funds		
Additions to fixed assets	416	738
Dividends declared	153	240
Increase in notes receivable	320	—
Decrease (increase) in long-term debt	(49)	451
Redemption of preferred shares	—	84
Acquisition of subsidiary:		
Cost of shares	661	—
Working capital acquired	361	—
	300	—
	1,140	1,513
(Decrease) in working capital	(5)	(601)
Working capital at beginning of period	7,026	8,115
Working capital at end of period	$ 7,021	$ 7,514

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TOROMONT INDUSTRIES LTD.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Toromont Industries Ltd. (the "Corporation") will be held in Tudor Rooms 8 and 9, Royal York Hotel, Toronto, Ontario, on the 17th day of June, 1977 at the hour of 11:00 a.m., for the following purposes:

(a) To receive the report of the directors and the consolidated financial statements of the Corporation and its subsidiary companies for the fiscal year ended December 31, 1976, together with the report of the auditors thereon;

(b) To elect directors;

(c) To appoint auditors and authorize the directors to fix their remuneration;

(d) To transact such other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto, Ontario, this 25th day of May, 1977.

By order of the Board of Directors
A. L. Fagan, Jr.
Secretary

If you are unable to attend the meeting in person, please date and sign the enclosed form of proxy and return it in the envelope provided for that purpose.

TOROMONT INDUSTRIES LTD.

MANAGEMENT PROXY CIRCULAR

SOLICITATION OF PROXIES

This management proxy circular is furnished in connection with the solicitation of proxies by the management of Toromont Industries Ltd. (the "Corporation") for use at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the accompanying notice of meeting. The solicitation will be primarily by mail, but proxies may also be solicited personally by regular employees of the Corporation. The cost of the solicitation by management will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Corporation. **A shareholder desiring to appoint some other person to represent him at the meeting may do so by** inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Corporation at least 48 hours before the time of the meeting.

A shareholder who has given a proxy may revoke it, as to any motion on which a vote has not already been cast pursuant to the authority conferred by it, by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote or withhold from voting the shares represented by properly executed proxies in accordance with the instructions contained therein. **In the absence of instructions such shares will be voted for the election of directors and the appointments of auditors as stated under those headings in this circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting with respect to their matters which may properly come before the meeting. At the time of printing this circular the management of the Corporation knows of no such amendments, variations or other matters to come before the meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation has 3,061,459 common shares outstanding and each of such shares carries the right to one vote at the meeting. To the knowledge of the directors and officers of the Corporation, no person beneficially owns or exercises control or direction over shares carrying more than 10% of the votes attached to the shares of the Corporation except as stated below.

GBC Capital Limited holds a total of 625,000 common shares of the Corporation representing approximately 20.4% of the outstanding common shares. Mr. N. B. Ivory, a director of the Corporation, is an officer and director of GBC Capital Limited.

Mr. S. J. Sinclair, a director and officer of the Corporation, holds 569,257 common shares of the Corporation representing approximately 18.6% of the outstanding common shares.

Glaser Bros. owns 405,000 common shares of the Corporation, representing approximately 13.2% of the outstanding shares. Mr. D. E. Gillespie, a director of the Corporation, is Chief Executive Officer and, indirectly, a shareholder of Glaser Bros.

ELECTION OF DIRECTORS

The Board presently consists of eleven directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are listed below, all of whom are now members of the board of directors and have been since the date indicated. The management of the Corporation does not contemplate that any such nominee will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote in their discretion for other nominees as directors. Each director elected will hold office until the next annual meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The following table sets out the name of each person proposed to be nominated for election as a director of the Corporation; all other major positions and offices in the Corporation or any of its significant affiliates now held by him; his principal occupation or employment; the year in which he was first elected a director; and the approximate number of common shares of the Corporation that he has advised are beneficially owned by him or over which control or direction is exercised by him.

	Year first became a director	Approximate number of common shares
R. G. Bremner is Chairman of the Board of Acadia Forest Products Limited	1976	49,200
P. F. Fenton, Jr. is Chairman of the Division of Business Administration, Bishop's University	1973	900
D. E. Gillespie is Chief Executive Officer of Glaser Bros. (distributors of tobacco products)	1972	54,600(1)
N. B. Ivory is President of Pembroke Management Ltd. (investment management company)	1974	100
B. B. Lockwood is a partner of the law firm of Blake, Cassels & Graydon	1971	30,100
N. J. Lucas is President of CIMCO Limited (subsidiary of the Corporation)	1976	40,000
A. Marcil is Chief Executive Officer of Montreal City and District Savings Bank	1965	1,924
W. A. McKenzie is President of Admac Holdings Limited (private investment company)	1973	55,000
R. A. Scoon is President of the Corporation, Allen Tank Limited and Allen Tank (London) Limited (subsidiaries of the Corporation)	1973	195,057(2)
S. J. Sinclair is Chairman of the Board and Chief Executive Officer of the Corporation and President of Lewis Refrigeration Co. (subsidiary of the Corporation)	1969	569,257
N. G. Van Nest is Chief Executive Officer of Triarch Corporation Limited (financial services)	1969	16,987

(1) In addition to these shares, Glaser Bros. owns 405,000 common shares. Mr. Gillespie is chief executive officer and, indirectly, a shareholder of Glaser Bros.

(2) In addition to these shares, Mr. Scoon's wife beneficially owns 32,000 common shares and his children beneficially own a total of 36,150 common shares.

DIRECTORS' AND OFFICERS' REMUNERATION AND EXPENSES FOR 1976

		NATURE OF REMUNERATION EARNED				
	Directors' fees	Salaries	Bonuses	Non-accountable expense allowances	Other	Total
REMUNERATION OF DIRECTORS (note 1)	$46,500	nil	nil	nil	$26,200	$72,700
Number of Directors: 11						
REMUNERATION OF OFFICERS (note 2)	nil	$253,146	$59,650	nil	nil	312,796
Number of Officers: 4						
TOTALS	$46,500	$253,146	$59,650	nil	$26,200	$385,496

Note 1: Aggregate remuneration paid to directors as directors, except for "Other" which comprised consulting fees.

Note 2: Aggregate remuneration paid to officers as officers.

The estimated aggregate cost to the Corporation and its subsidiaries during the financial year ended December 31, 1976 of all benefits proposed to be paid to the directors and officers of the Corporation under any pension or retirement plan upon retirement at normal retirement age was $28,054.

INCENTIVE STOCK PURCHASE PLAN

During 1976, officers of the Corporation purchased a total of 2,500 common shares under the Corporation's Incentive Stock Purchase Plan as follows:

Date of Purchase	Number of Shares Purchased	Price per Share	Price range of shares on Toronto Stock Exchange in 30 day period preceding granting of option
February 12, 1976	2,500	$2.40	$2.20—$2.45

As of the date hereof, the following persons are indebted to the Corporation on account of interest-free loans made in accordance with the Incentive Stock Purchase Plan of the Corporation:

Name of officer	Outstanding Amount	
	Largest Aggregate Amount Since January 1, 1976	Present Balance
S. J. Sinclair	$206,640	$188,730
R. A. Scoon	153,615	139,196
A. L. Fagan, Jr.	35,250	34,898
N. J. Lucas	45,360	39,690

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides directors' and officers' liability insurance with a policy limit of $5,000,000 per year subject to a deductible of $20,000 per occurrence and 5% of the amount of each loss in excess of $20,000. Under this insurance coverage the Corporation is reimbursed for payments made under corporate indemnity provisions on behalf of its directors and officers and individual directors and officers are reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Corporation. The portion of the premiums allocated to the fiscal year ended December 31, 1976 was $7,886, all of which was paid by the Corporation.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the appointment of Messrs. Touche Ross & Co., Chartered Accountants, Toronto, Ontario, who have been auditors of the Corporation for more than five years, as auditors of the Corporation to hold office until the next annual meeting of shareholders.

DIRECTORS' APPROVAL

The contents and the sending of this circular have been approved by the directors of the Corporation.

Dated as of May 25, 1977.

A. L. Fagan, Jr.
Secretary

TOROMONT
INDUSTRIES LTD.

Head Office: Toronto, Canada
Phone (416) 465-3518

Financial Highlights

	1977	1976
Sales		
Industrial Refrigeration	**$37,565,000**	$28,703,000
Engineered Products	**20,121,000**	23,023,000
Building Products	**1,792,000**	1,715,000
	59,478,000	53,441,000
Net Earnings from Continuing Operations	**1,572,000**	1,175,000
Discontinued Subsidiary Operations		
Net Earnings	**34,000**	—
Loss on Sale of Subsidiary	**(205,000)**	—
Net Earnings for the Year	**1,401,000**	1,175,000
Per Share of Common Stock		
Earnings from Continuing Operations	**51.3¢**	25.6¢
From Discontinued Operations		
Net Earnings	**1.2**	—
Loss on Sale of Subsidiary	**(6.7)**	—
Net Earnings	**45.8¢**	25.6¢
Dividends	**10¢**	10¢
Equity	**$3.51**	$3.15
Working Capital	**$ 8,376,000**	$ 6,900,000
Return on Common Shareholders' Equity	**16.3%**	8.6%

Toromont has manufacturing operations in Canada and the United States and sells to international markets. Major areas of operation are industrial refrigeration and engineered products, including forgings, steel laminations and wound electrical cores.

TOROMONT
INDUSTRIES LTD.
and subsidiaries

To our Shareholders

The Record
In 1977, Toromont's sales were $59,478,000 and net earnings before special items were $1,572,000 or 51.3¢ per share. Comparative figures for 1976 were sales of $53,441,000 and net earnings of $1,175,000 or 25.6¢ per share. Earnings per share were based on 3,061,000 shares outstanding in 1977, compared with 4,572,000 shares in 1976.

In June 1977, Toromont sold a small subsidiary, Viking Pump Company of Canada, Limited, which was part of our engineered products group. This subsidiary had not been contributing significantly to our earnings and the sale was in line with our continuing plans to concentrate our resources on the development of our larger operating units. The loss on the sale was $205,000. Net earnings for 1977 after allowing for this loss and also for profits on discontinued operations were $1,401,000 or 45.8¢ per share.

Despite difficult economic conditions in Canada, including a weak capital goods market, Toromont's operations showed a significant improvement. This was in large part due to better results from Toromont's U.S. industrial refrigeration operations, which benefited from increased equipment spending in the food processing industry, its principal market, and from a realignment of operations. In 1977, U.S. industrial refrigeration operations showed a profit as compared with a loss in 1976. Toromont's Canadian operations in the industrial refrigeration field also had improved sales and earnings in 1977.

Developments
New Products
In 1978, we introduced a spiral freezer, a product for which there is an existing large market. We expect that our spiral freezer and other new refrigeration products currently in the prototype stage will add measurably to our future profitability.

New Forging Facilities
Our forging division has received delivery of its new ring rolling mill and expects to start up the mill late in the second quarter of this year. The new facilities represent a major expansion of forging capabilities and will have a cost of more than $2.5 million when completed. We expect these facilities to contribute importantly to the division's profitability in 1979 and subsequent years.

Technical Assistance Agreement
Our forging division has also entered into a technical assistance and marketing agreement with the Standard Steel division of Titanium Metals Corp. of America, which is equally owned by Allegheny Ludlum Industries, Inc. and NL Industries, Inc. Under this agreement, Standard Steel will provide us with technological know-how on ring rolling technology and we will sell certain forged products of Standard Steel in Canada. Standard Steel's know-how will be of great help to us in our start-up and operations of the new ring rolling facilities. Also, our forging customers will benefit from the expanded product line which we can now offer through this agreement.

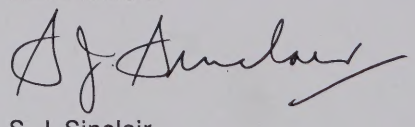
Our new forging facilities and the agreement with Standard Steel place us in an excellent position to compete for the substantial business in rings, flanges and other forged parts that are expected to be generated by the Alcan pipeline and the $2.3 billion program to procure a new fighter aircraft for the Canadian Armed Forces. Both these programs are expected to have a substantial Canadian content.

Capital Expenditures
Capital expenditures in 1977 amounted to $1,421,000 as compared with $1,869,000 in 1976. Present plans call for a continued high level of capital expenditures through 1978. Much of this expenditure is for new equipment for our forging division to complete its ring rolling facilities. Also, our manufacturing unit near Salt Lake City, Utah is building a 60,000 square foot plant which will consolidate production of industrial refrigeration products, proprietary printing products and conveying containers for automated warehousing systems. We expect that the new facilities will result in considerable improvement in operating efficiency for this unit which now has production in three separate locations.

Dividends
In view of the improved operating results and the favourable outlook, an extra dividend of 5¢ per common share was paid on April 25, 1978. In addition, the directors have expressed their intention to increase the regular annual dividend from 10¢ to 15¢ payable semi-annually commencing with the July 1978 dividend.

Looking Ahead
Canada still faces serious economic problems with high inflation, a low rate of real growth and depressed markets for capital goods. At present, 77% of our assets are in Canada, 21% in the U.S. and 2% in other countries. In 1977, 70% of our sales were made to Canadian customers, 27% to U.S. customers and 3% to customers in other parts of the world. We believe that our company is now in an excellent position to serve the growing world markets for food and energy products and that we will continue to show improved earnings in 1978 and in subsequent years, even in the face of weak economic conditions in Canada. Moreover, we remain optimistic for the longer term and expect Toromont to show major gains in sales and earnings when economic conditions in Canada improve.

We appreciate the continued support and cooperation of our customers, suppliers, employees and shareholders.



S. J. Sinclair
Chairman of the Board &
Chief Executive Officer

April 28, 1978

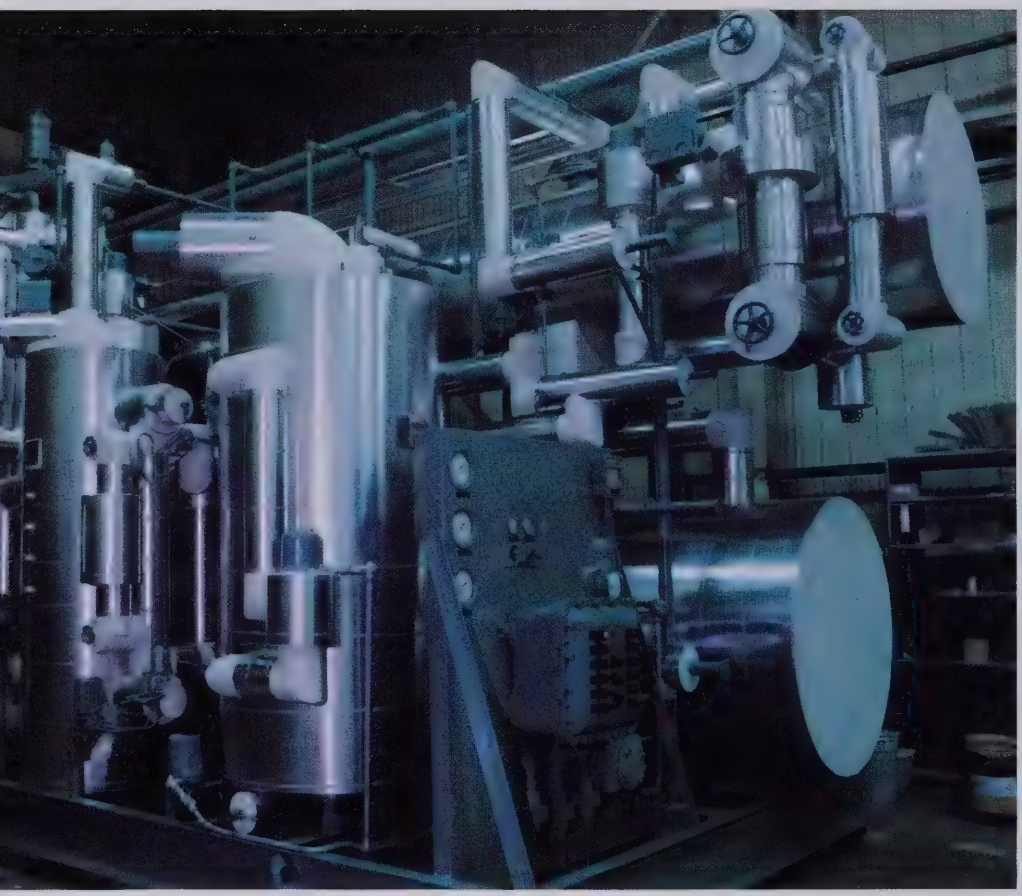
Review of Operations

Toromont's industrial refrigeration operations specialize in the design, manufacture, installation and servicing of refrigeration systems for the food processing, petrochemical and recreational industries. The company's Canadian subsidiary, CIMCO, is the dominant entity in its markets, the most important of which have been ice rinks and refrigeration systems for food and beverage processing and storage. Toromont's U.S. subsidiary, Lewis Refrigeration Co., has been the pioneer and leader in I.Q.F. (Individually Quick Frozen) systems for food processing and also serves the food storage and petrochemical markets.

Canadian industrial refrigeration sales and earnings in 1977 were significantly higher than in 1976. Also, Canadian manufacturing operations were much improved due to strength in petrochemical packages for the U.S. market. We expect continued improvement in these operations this year.

In 1977, the food processing market in the U.S. recovered and U.S. industrial refrigeration sales were significantly higher than in the prior year. The sales improvement, together with effective cost cutting measures, combined to produce a profit versus a small loss in 1976. In addition, our U.S. unit has developed significant new products and we expect an improvement in operating results in 1978.

Lewis Series 800 spiral long retention freezer



Industrial Refrigeration

CIMCO Limited
Dartmouth, Nova Scotia
Quebec, Quebec
Montreal, Quebec
Ottawa, Ontario
Toronto, Ontario
London, Ontario
Winnipeg, Manitoba
Regina, Saskatchewan
Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

Allen Tank Limited
Scarborough, Ontario

Allen Tank (London) Limited
London, Ontario

Lewis Refrigeration Co.
Malden, Massachusetts
Houston, Texas
Tulsa, Oklahoma
Los Angeles, California
Redmond, Washington
Norwich, England

Aero Tech Mfg., Inc.
Bountiful, Utah

Top: Ethane refrigeration system for a leading U.S. engineering firm.

Right: Ammonia storage refrigeration package for a major forest products company.

Aero Tech Mfg., Inc., our sheet metal fabricator located near Salt Lake City, Utah, had a satisfactory year in 1977 and should also show improved results in 1978, due to demand for industrial refrigeration products and our proprietary processors for photopolymer printing plates. In addition, our new facilities should produce a significant improvement in production efficiency.

Allen Tank Limited, our manufacturer of pressure vessels, experienced start-up difficulties with its new plant facilities and showed reduced earnings in 1977. These difficulties have now been resolved and we expect this unit to have greatly improved profitability this year. We have recently

Fifty-two ton hydrotreater tower built by Allen Tank for the refinery of a major oil company.

obtained a contract of $1.5 million for the manufacture of stainless steel towers which will be part of an LNG facility being constructed by Canadian Kellogg Company Limited for Enterprise National Sonatrach at Arzew, Algeria.

Allen Tank (London) Limited, our manufacturer of heat exchangers, had an exceptionally good year in 1976 and while 1977 results were lower, they were still satisfactory. The outlook for 1978 is for results more or less in line with 1977.

Engineered Products

Canada Forgings, a Division of Toromont Industries Ltd.
Welland, Ontario

El-Met-Parts Division of Toromont Industries Ltd.
Dundas, Ontario

Our forging division, CanForge, operates two plants, both in Welland, Ontario. The heavy forge plant produces forgings up to twenty tons from equipment which includes three forging presses, two steam hammers and the only ring rolling facilities in Canada.

This division has recently installed a Wagner 100/80 radial axial ring rolling mill. Products include rolled rings and flanges, end fittings, large shafts and hooks. The drop forge plant produces forgings up to 150 pounds on equipment which includes steam and board drop hammers ranging from 1,200 to 10,000 pounds. Products include truck parts, aircraft components, valve bodies and fittings.

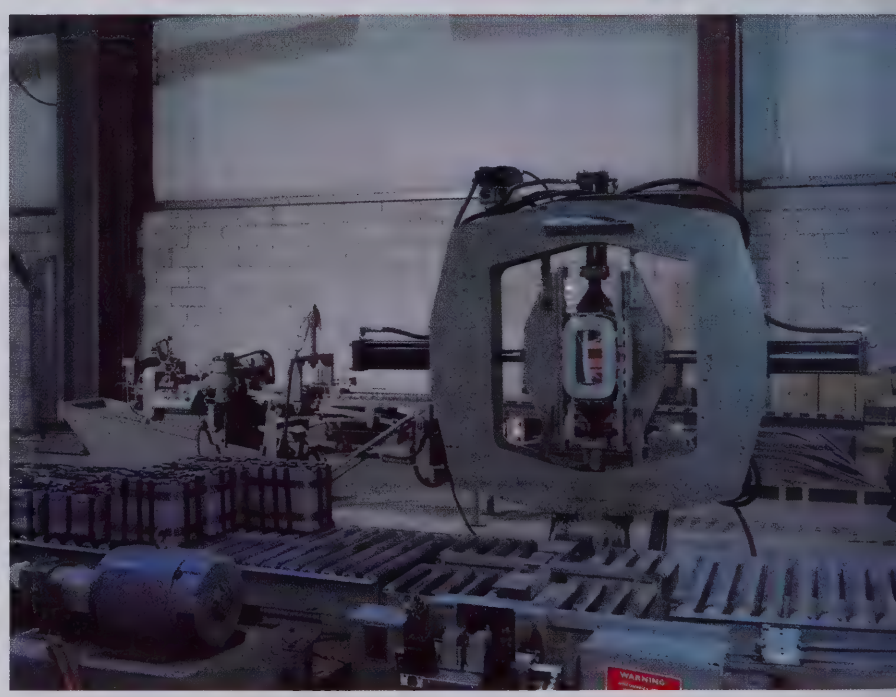
Our major marketing effort in forgings has been to the nuclear and other energy related industries where we have a strong competitive position due to specialized know-how and equipment capabilities.

Wagner radial axial 100/80 ring mill rolling an inside diameter profile ring.

Our forging division had a good year in 1977, though results were slightly under those for 1976 due to general economic conditions. The prospect for the current year is for some improvement over 1977. However, in 1979 and beyond, we expect greatly improved operating results because of our major capital expenditure program and our technical assistance and marketing agreement with Standard Steel.

Toromont's El-Met-Parts Division is Canada's largest independent manufacturer of steel laminations and wound electrical cores for the electrical and electronic industries. These products are basic components of transformers, motors and fluorescent and mercury lighting ballasts.

This division's sales and earnings in 1977 were somewhat better than in the prior year, but were held back by continuing weakness in its major markets. These conditions are continuing this year and while results are expected to improve somewhat, we do not foresee major gains.



Top: CanForge's ceramic lined car bottom forge/anneal furnace. The furnace front is loaded with 2200°F. reheated donut blanks to be rolled on the ring mill.

Right: Hydraulic clamp for cores for distribution transformers at El-Met-Parts.

Building Products

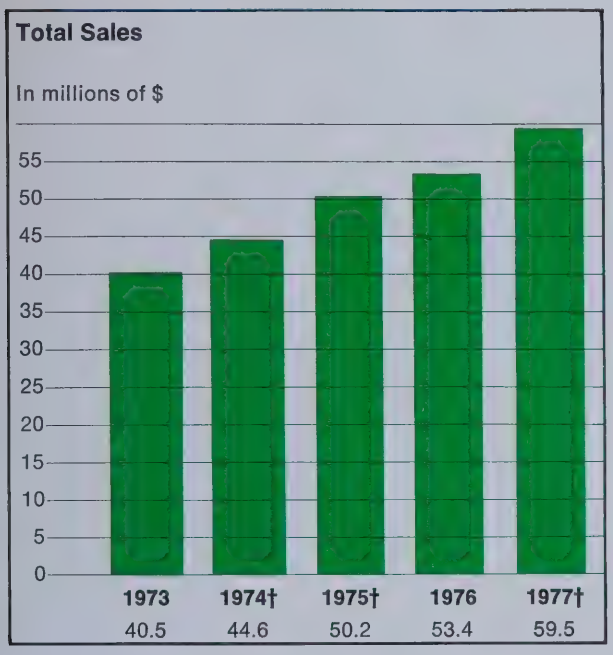
F. B. McFarren, Limited
Streetsville, Ontario

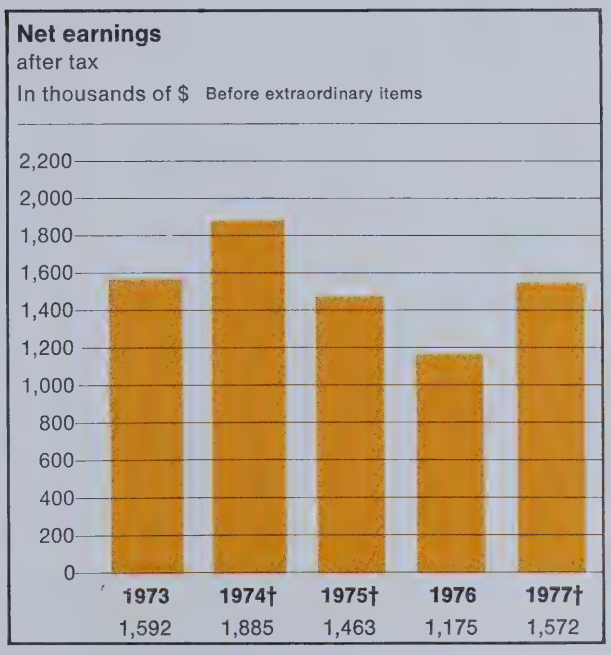
Toromont's subsidiary, F. B. McFarren, Limited, manufactures burned clay building, specialty and paving bricks for distribution in Ontario. The manufacturing plant and shale quarry are on a sixty acre site in Mississauga, Ontario.

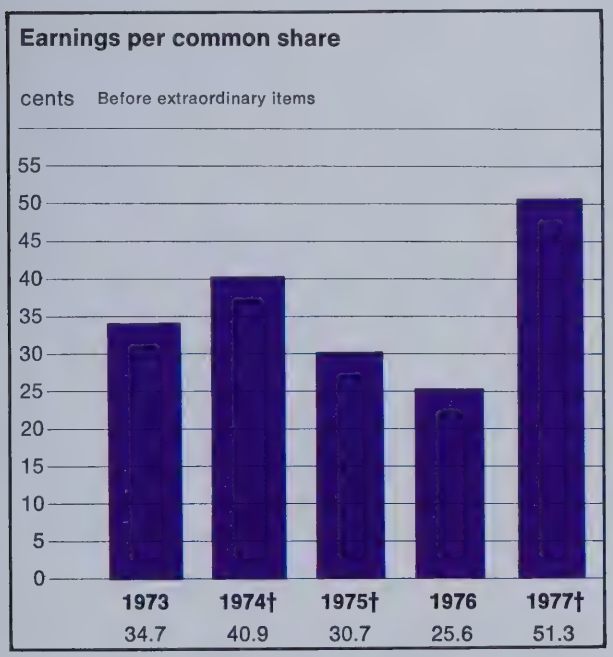
In 1977, this unit had a satisfactory year with earnings significantly better than in the previous year. For 1978, we are anticipating continued improvement in results.

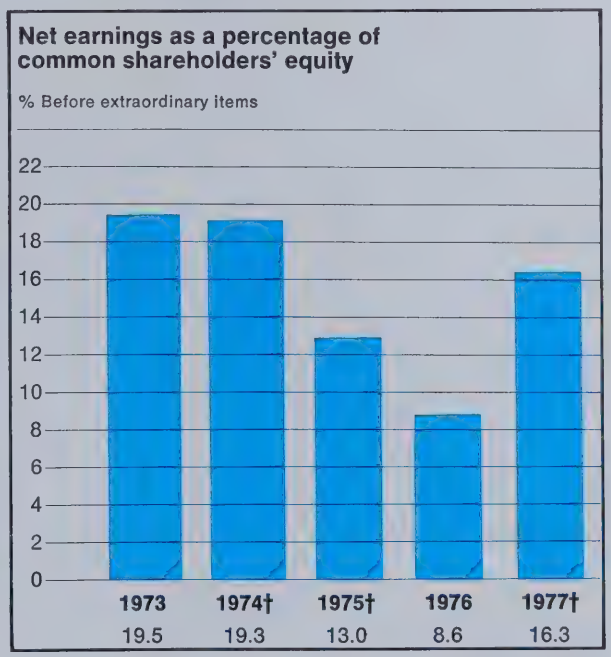
McFarren has a joint venture, Torclare Development Company, with Bob-Clare Investments Limited for the development of its Mississauga land. This land is presently zoned agricultural and application has been made to rezone the land for residential and commercial purposes. There has been no action taken on the company's zoning application and we cannot estimate when, if ever, such rezoning will be granted, or if granted, the terms on which redevelopment might be permitted. McFarren intends to continue its brickmaking operation on the land until such time as redevelopment commences.

5 Year Review









†From Continuing Operations

TOROMONT

INDUSTRIES LTD.

(Incorporated under the
Canada Business Corporations Act)

Consolidated Balance Sheet

as at December 31, 1977
(with comparative figures for 1976)

	(Thousands of dollars) **1977**	1976
Assets		
Current		
Cash	**$ 1,554**	$ 766
Accounts receivable		
Trade, less allowance for doubtful accounts of $640 (1976 — $649)	**10,287**	9,636
Other	**391**	25
Inventories (Note 2)	**7,308**	7,600
Notes receivable (Note 3)	**143**	75
Income taxes recoverable	**—**	405
Prepaid expenses	**320**	147
Deferred income taxes	**63**	81
	20,066	18,735
Notes receivable and other assets (Note 3)	**1,316**	897
Property, plant and equipment (Note 4)		
Buildings, machinery and equipment	**13,567**	13,576
Less accumulated depreciation	**6,693**	6,931
	6,874	6,645
Land	**393**	595
	7,267	7,240
Goodwill (Note 10)	**2,636**	3,090
	$31,285	$29,962

On behalf of the Board

S. J. Sinclair, Director

R. G. Bremner, Director

See accompanying notes to consolidated financial statements.

	(Thousands of dollars) 1977	1976
Liabilities		
Current		
Bank indebtedness, secured	**$ 2,318**	$ 4,319
Accounts payable and accrued liabilities	**7,691**	6,393
Dividends payable	**153**	153
Income taxes payable	**241**	—
Current portion of long-term debt (Note 5)	**1,287**	970
	11,690	11,835
Long-term debt (Note 5)	**7,740**	7,674
Deferred income taxes	**1,014**	814
Unrealized gain on foreign exchange	**106**	—
Minority interest in subsidiary company	**4**	3
	20,554	20,326
Shareholders' Equity		
Capital stock (Note 6)	**4,733**	4,733
Contributed surplus	**386**	386
Retained Earnings	**5,612**	4,517
	10,731	9,636
	$31,285	$29,962

See accompanying notes to consolidated financial statements.

TOROMONT
INDUSTRIES LTD.
and subsidiaries

Consolidated Statement of Earnings

For the year ended December 31, 1977
(with comparative figures for 1976)

	(Thousands of dollars) 1977	1976
Sales (Note 15)	**$59,478**	$53,441
Costs and expenses		
Cost of products sold and services rendered	**48,576**	43,487
Selling, general and administrative	**7,560**	7,043
Interest on long-term debt	**892**	483
Other interest	**162**	316
	57,190	51,329
	2,288	2,112
Gain on sale of property, plant and equipment	**138**	—
Other revenue	**183**	—
Earnings for the year before provision for income taxes (Note 15)	**2,609**	2,112
Provision for income taxes (Note 9)		
Current	**817**	882
Deferred	**218**	54
	1,035	936
Earnings from continuing operations before minority interest	**1,574**	1,176
Minority interest in earnings of subsidiary company	**2**	1
Net earnings from continuing operations	**1,572**	1,175
Discontinued operations of subsidiary company sold during the year (Note 7)		
Net earnings	**34**	—
Loss on sale	**(205)**	—
	(171)	—
Net earnings for the year	**$ 1,401**	$ 1,175
Earnings per common share (Note 11)		
Continuing operations	**51.3¢**	25.6¢
Discontinued operations of subsidiary company		
Net earnings	**1.2**	—
Loss on sale	**(6.7)**	—
Net earnings for the year	**45.8¢**	25.6¢

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

For the year ended December 31, 1977
(with comparative figures for 1976)

	(Thousands of dollars) 1977	1976
Retained earnings at beginning of year	**$ 4,517**	$ 5,930
Net earnings for the year	**1,401**	1,175
	5,918	7,105
Premium, costs and Part IX Tax on purchase of preferred and common shares for cancellation (Note 6)	**—**	2,193
Dividends declared		
Preferred	**—**	4
Common, 10¢ per share (1976 — 10¢)	**306**	391
	306	2,588
Retained earnings at end of year	**$ 5,612**	$ 4,517

See accompanying notes to consolidated financial statements.

Auditors' Report

The Shareholders,
Toromont Industries Ltd.

We have examined the consolidated balance sheet of Toromont Industries Ltd. as at December 31, 1977 and the consolidated statements of retained earnings, earnings and changes in financial position for the year then ended.
Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Toronto, Ontario,
March 28, 1978.

TOROMONT
INDUSTRIES LTD.
and subsidiaries

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1977
(with comparative figures for 1976)

	(Thousands of dollars) 1977	1976
Source of funds		
Operations		
Net earnings for the year	**$ 1,401**	$ 1,175
Add (deduct) items not requiring use of funds		
Depreciation	**743**	674
Deferred income taxes	**200**	78
Goodwill written off	**467**	11
Gain on sale of property, plant and equipment	**(138)**	—
	2,673	1,938
Sale of property, plant and equipment	**554**	7
Sale of subsidiary company (Note 7)		
Excess of costs over net assets	**194**	—
Property, plant and equipment	**143**	—
Unrealized gain on foreign exchange	**106**	—
Increase in long-term debt, net	**66**	4,023
Decrease in notes receivable and other assets	**—**	105
Other	**1**	6
	3,737	6,079
Application of funds		
Additions to property, plant and equipment	**1,421**	1,869
Subsidiary company acquired (Note 8)		
Costs in excess of net assets acquired	**207**	—
Property, plant and equipment acquired	**110**	—
Dividends declared	**306**	395
Increase in notes receivable and other assets (Note 3)	**217**	—
Redemption of preferred shares (Note 6)	**—**	87
Purchase of common shares for cancellation (Note 6)	**—**	4,817
	2,261	7,168
Increase (decrease) in working capital	**1,476**	(1,089)
Working capital at beginning of year	**6,900**	7,989
Working capital at end of year	**$ 8,376**	$ 6,900

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1977

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies which, with the exception of CIMCO Limited, are wholly-owned. The Company owns 99.9% and 98.7% respectively of the common and Class "A" shares of CIMCO Limited. All significant inter-company transactions and profits between the Company and its subsidiary companies have been eliminated on consolidation.

Newly acquired subsidiary companies are consolidated from the effective date of their acquisition. The results of operations of subsidiary companies sold during the year are disclosed separately up to the effective date of sale. The gain or loss on disposal is also disclosed separately.

(b) Revenue recognition

Revenues from contracting activities involving design, manufacture and installation of equipment are recorded on the completed contract method based upon substantial technical completion. Any foreseeable losses on contracts are charged to operations at the time they become evident.

Revenues from the sale of products and services are recorded when goods are shipped and services are rendered, or in accordance with contractual agreements.

(c) Inventories

Inventories of raw materials, work-in-process and finished goods are valued at the lower of cost (principally on the first-in, first-out method) and net realizable value.

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Government grants received to acquire assets are deducted from the cost of the related asset. Depreciation is computed using substantially the straight-line method. Depreciation rates are designed to write-off the assets over their estimated useful lives.

Gains or losses on the disposal of assets are included in earnings and the cost and accumulated depreciation related to these assets are removed from the accounts.

Repairs and maintenance costs are charged to operations as incurred and renewals and betterments are capitalized.

(e) Foreign exchange

The accounts of foreign subsidiary companies have been translated into Canadian dollars using the temporal method and as such at exchange rates prevailing at the balance sheet dates for monetary items, at exchange rates prevailing at the respective transaction dates for non-monetary items and at average exchange rates prevailing during the year for revenue, costs and expenses, excluding depreciation and amortization which are translated at rates in effect when the assets were acquired. The unrealized translation gains and losses are deferred and realized translation gains and losses are included in the determination of the earnings for the year.

(f) Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets of businesses acquired. Goodwill acquired prior to 1974 is considered to have continuing value and is not being amortized, except as indicated in Note 10. Goodwill acquired subsequently is being amortized over its estimated useful life on the straight-line method, not exceeding forty years. In the event of sale of subsidiaries, the related Goodwill is written off if it is not realized.

(g) Income taxes

The Company follows the tax deferral method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred taxes.

2. Inventories

Inventories consist of the following:

	1977	1976
	($000)	
Raw material	**$4,291**	$4,972
Work-in-process	**1,799**	1,686
Finished goods	**979**	928
Contract costs net of progress billings	**239**	14
	$7,308	$7,600

3. Notes receivable and other assets

Notes receivable and other assets include the following:

	1977	1976
	($000)	
Secured, interest free notes receivable		
Employee Incentive Stock Purchase Plan		
Officers and directors	**$ 380**	$415
Other employees	**140**	159
Mortgage and other employee loans	**73**	106
Notes receivable (Note 7)	**360**	75
Property held for sale – at cost	**202**	—
Other	**304**	217
	1,459	972
Less current portion	**143**	75
	$1,316	$897

4. Property, plant and equipment

Buildings and improvements with a net book value of $553,000 are situated on leased land. The lease expires in 1981 at which time the lessor must offer to renew the lease or the lessor must purchase the buildings, including improvements, at the then appraised fair market value.

During the year, the Company received a loan of $1,174,000 from the Defence Industry Productivity Program of the Government of Canada to acquire certain equipment. Under the terms of the agreement, 50% of the loan is repayable in five annual instalments and the balance will be forgiven if the conditions of the agreement are met. Accordingly, the cost of this equipment has been reduced by $587,000 and the Company is contingently liable to repay the forgivable portion of the loan if the conditions are not met. The loan is secured by the related equipment.

5. Long-term debt

	1977	1976
	($000)	
Term bank loans, secured by a floating charge on all assets of the Company and bearing interest at 1% to 1¾% above the current prime rate, repayable on various terms	**$8,043**	$8,262
Notes payable		
Repayable to the Government of Canada in five annual instalments commencing in 1979 and non-interest bearing	**587**	—
Mortgage payable and other notes bearing interest at 4¼% to 9%	**358**	348
Policy loans, secured by cash surrender value of life insurance policies bearing interest at 5% to 6%	**39**	34
	$9,027	$8,644
Less instalments due within one year	**1,287**	970
	$7,740	$7,674

6. Capital stock

(a) Authorized and issued shares of capital stock are as follows:

	1977	1976
	($000)	
Authorized		
650,000 6½% cumulative, redeemable convertible preferred shares, without par value		
10,000,000 common shares without par value		
Issued and outstanding		
3,061,469 common shares	**$4,733**	$4,733

(b) During 1976, 8,425 preferred shares were redeemed for a cash consideration of $87,000.

(c) During 1976, 1,700,000 common shares were purchased for cancellation for a cash consideration of $4,675,000, which includes a premium of $2,050,000. The premium, Part IX Tax of $101,000 on 1971 undistributed income and costs relating to the purchase were charged to retained earnings.

(d) Under the Employee Incentive Stock Purchase Plan, 2,500 common shares were issued during 1976 for a consideration of $6,000 (market price at time of issue) evidenced by a promissory note, repayable in varying amounts annually until 1986.

(e) At December 31, 1977, 33,750 common shares have been reserved for future issuance at the market price at time of issue under the Employee Incentive Stock Purchase Plan.

7. Discontinued operations of subsidiary company

Viking Pump Company of Canada, Limited, a subsidiary company, was sold effective June 16, 1977 for a consideration of $1,000,000 of which $600,000 was received in cash and $400,000 in a promissory note, repayable in equal monthly instalments over a period of five years. This note bears an interest rate of 1% over the prime rate and is guaranteed by the purchaser.

The net investment in this subsidiary company at the date of sale was $1,196,000 and the Company incurred a loss of $205,000 including costs of disposition.

The operations of Viking Pump Company of Canada, Limited accounted for $2,561,000 of sales and $25,000 of net earnings for the year ended December 31, 1976, which are included in the 1976 comparative statement of earnings.

8. Acquisition of subsidiary company

Effective January 1, 1977, Lewis Refrigeration Co., a subsidiary company, acquired all of the outstanding shares of Aero Tech Mfg., Inc. for a net purchase consideration of $664,000. The net book value of assets acquired was $459,000 and the excess of cost over net book value of $205,000 has been recorded as Goodwill.

9. Income taxes

The Company and its subsidiary companies have the following future income tax benefits available which have not been recognized in the financial statements:

(a) Tax loss carry-forwards of approximately $1,245,000 may be applied against future taxable income of the Company and its subsidiary companies. Of this amount, $90,000 must be utilized by December 31, 1980, $595,000 by December 31, 1981, $12,000 by December 31, 1982, $140,000 by December 31, 1983 and the remainder thereafter.

(b) Investment tax credits of $182,000, of which $62,000 must be utilized by December 31, 1981, $86,000 by December 31, 1982 and $34,000 by December 31, 1983.

(c) Capital losses of $28,000 may be carried forward indefinitely.

Provision for income taxes is approximately $217,000 less than the amount computed by applying the statutory rates of tax to earnings before income taxes. The reduced rate of effective tax is a result of manufacturing and processing tax credits, the 3% inventory allowance and investment tax credits.

10. Goodwill

At the date of acquisition of Lewis Refrigeration Co., that company and its subsidiary companies had available losses for income tax purposes. The tax benefit of these losses is being credited to goodwill as realized. During 1977, $257,000 of such benefits were credited to goodwill (1976 — Nil).

11. Earnings per common share

Earnings per share are calculated based upon the weighted average number of shares outstanding during the year which were 3,061,469 (1976 weighted average — 4,572,372). Fully diluted earnings per common share have not been shown, as the dilutive effect would not be material in either year.

12. Pension plan

The Company contributes to pension plans available to a majority of its salaried and certain of its other employees. Pension costs charged against revenue during the period include $276,000 for current and past service. The latest actuarial valuations of these plans indicated an unfunded past service liability of approximately $1,075,000. Of this liability, $889,000 is being funded over future years to 1989 and the balance to 1997.

13. Legal action

During 1976, the Company appealed a trial judgement in favour of the former auditors of CIMCO Limited in the Company's action claiming damages in connection with the purchase of CIMCO Limited. The Company's appeal was allowed to the extent that the Company was permitted to recover the expenses of its investigation incurred in connection with the purchase. A reference was directed to determine the amount of these expenses, and the Company was awarded costs of the trial and the appeal. The amount of expenses recoverable had not been determined at December 31, 1977 and accordingly is not reflected in these financial statements.

14. Land development

During 1976, F. B. McFarren, Limited, a subsidiary company, entered into a development agreement with a land development company and formed a joint venture partnership for the development of land owned by it in the City of Mississauga. The land is currently being used to supply clay in the subsidiary company's brickmaking operation.

Transfer of beneficial interest or legal title of the land to the joint venture partnership is contingent upon rezoning the land for residential and commercial purposes and providing services thereto. No estimate can be made when, if ever, such rezoning will be granted and the company will continue its normal operations until redevelopment is commenced. Accordingly, these financial statements do not reflect this transaction.

15. Segmented information

The financial information of the classes of business of the Company, as determined by the directors, is summarized below:

	Year ended December 31			
	1977		1976	
	($000)			
	Sales	**Income before taxes**	Sales	Income before taxes
Industrial refrigeration	**$37,565**	**$2,080**	$28,703	$ 917
Engineered products	**20,121**	**1,836**	23,023	1,925
Building products	**1,792**	**160**	1,715	99
	59,478	**4,076**	53,441	2,941
Common costs		**1,467**		829
	$59,478	**$2,609**	$53,441	$2,112

16. Commitments

The Company leases land, buildings and equipment under several non-cancellable operating leases which require minimum annual payments for the next five years and thereafter as follows:

	($000)
1978	$305
1979	244
1980	213
1981	158
1982	151
Thereafter	500
Total	$1,571

A U.S. subsidiary of the Company is building a manufacturing facility near Salt Lake City, Utah, which is expected to cost $1,200,000.

17. Anti-Inflation Legislation

The Company and its Canadian subsidiaries are subject to, and believe they have complied with, the Anti-Inflation Legislation covering profit margins, prices, employee compensation and dividends.

This Legislation restricts the distribution of retained earnings in the form of dividends until October 14, 1978. As at December 31, 1977, retained earnings of $5,070,000 are restricted from distribution in the form of dividends.

18. Comparative information

Certain comparative figures for 1976 have been restated to comply with the 1977 financial statement presentation.

TOROMONT
INDUSTRIES LTD.

Corporate Directory

The Board of Directors

R. G. Bremner
Toronto, Ontario
Chairman of the Board
Acadia Forest Products Limited

P. F. Fenton, Jr.
Lennoxville, Quebec
Chairman, Division of Business Administration
Bishop's University

D. E. Gillespie
Los Angeles, California
Chief Executive Officer
Glaser Bros.

N. B. Ivory
Montreal, Quebec
President
Pembroke Management Ltd.

B. B. Lockwood
Toronto, Ontario
Partner
Blake, Cassels & Graydon

N. J. Lucas
Toronto, Ontario
President & Chief Executive Officer
CIMCO Limited

A. Marcil
Montreal, Quebec
Chief Executive Officer
Montreal City and District Savings Bank

W. A. McKenzie
London, Ontario
President
Admac Holdings Ltd.

R. A. Scoon
Toronto, Ontario

S. J. Sinclair
Toronto, Ontario
Chairman of the Board & Chief Executive Officer
Toromont Industries Ltd.

N. G. Van Nest
Toronto, Ontario
President &
Chief Executive Officer
Triarch Corporation Limited

Officers of the Company

S. J. Sinclair
Chairman of the Board & Chief Executive Officer

A. L. Fagan, Jr.
Vice-President, Finance & Secretary

Officers of Subsidiaries & Divisions

W. G. Bain
President
Aero Tech Mfg., Inc.
601 West 900 South
Bountiful, Utah 84010

J. W. Fraser
President
Canada Forgings, a Division of Toromont Industries Ltd.
P.O. Box 308
Welland, Ontario
L3B 5P8

N. J. Lucas
President & Chief Executive Officer
Allen Tank Limited
Allen Tank (London) Limited
CIMCO Limited
President
Lewis-CIMCO Petrochemical Division
65 Villiers Street
Toronto, Ontario
M5A 3S1

R. F. Meyer
President
Lewis-CIMCO Food Division
4370-150th Avenue N.E.
Redmond, Washington 98052

J. Papakyriakou
President
El-Met-Parts Division of Toromont Industries Ltd.
47 Head Street
Dundas, Ontario
L9H 3H6

J. A. Simpson
President
F. B. McFarren, Limited
Box 299 (Thomas Street)
Streetsville, Ontario
L5M 2B8

S. J. Sinclair
Chairman of the Board
Lewis Refrigeration Co.
4370-150th Avenue N.E.
Redmond, Washington 98052

Head Office

65 Villiers Street
Toronto, Ontario
M5A 3S1

General Counsel

Blake, Cassels & Graydon
Toronto, Ontario

Miller, Anderson, Nash, Yerke & Wiener
Portland, Oregon

Auditors

Touche Ross & Co.
Chartered Accountants

Transfer Agent and Registrar

Crown Trust Company
Toronto, Ontario
Montreal, Quebec

Common Shares

Listed on the Toronto Stock Exchange and the Montreal Stock Exchange

Bankers

The Toronto-Dominion Bank
The Mercantile Bank of Canada